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Testimony

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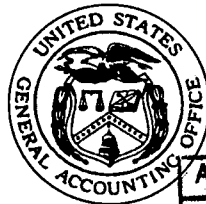
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U.S. DEPARTMENT OF
AGRICULTURE

Improved Management Could
Increase the Effectiveness of
Export Promotion Activities

Statement of Allan I. Mendelowitz, Director
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U.S. DEPARTMENT OF AGRICULTURE
IMPROVED MANAGEMENT COULD INCREASE
THE EFFECTIVENESS OF EXPORT PROMOTION ACTIVITIES

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ
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GAO's testimony addresses the effectiveness of three Department of Agriculture export promotion activities: the Market Promotion Program, overseas agricultural trade offices, and the Trade Show Program.

The Food, Agriculture, Conservation, and Trade Act of 1990 required Agriculture to develop a long-term agricultural trade strategy by October 1991. This strategy has not yet been completed. Without such a plan Agriculture's individual export promotion activities will continue to lack a coherent rationale and justification.

Over \$1 billion has been authorized under the Market Promotion Program and its predecessor, the Targeted Export Assistance Program, since 1986. In recent years over one-third of the program's funds have been used by private firms to promote their products through various types of marketing techniques. Despite this substantial funding, a direct relationship between program-funded promotion activities and increased exports has been extremely difficult to demonstrate. Furthermore, Agriculture's funding criteria do not include guidance for when to phase out program funding for individual program participants.

Agriculture operates 13 agricultural trade offices worldwide at an annual cost of about \$4.7 million. However, Agriculture cannot readily demonstrate that existing or proposed trade offices are in the best locations for maximizing market development opportunities for U.S. products. While Agriculture evaluates individual market development activities, it has not evaluated the overall effectiveness of its trade offices since 1981.

Concerning the effectiveness of trade shows, Agriculture does not centrally manage the program. In contrast to practices at the Department of Commerce and some competitor countries, Agriculture routinely subsidizes the cost of participation for exhibitors. The subsidy is equally available to frequent trade show participants and new-to-export companies, and to large and small firms alike. These practices reflect the need for a long-term agricultural trade strategy.

The successful completion of a long-term agricultural trade strategy will not alone solve current problems. Governmentwide export promotion programs are not linked to an overall strategy or set of national priorities. Therefore, taxpayers cannot be assured funds are being used to promote products in markets that will generate the highest potential returns.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss three export promotion activities of the Department of Agriculture: (1) the Market Promotion Program, (2) overseas agricultural trade offices, and (3) the Trade Show Program. My testimony on the Market Promotion Program is based on ongoing work performed at your request and that of Congressman Charles E. Schumer as well as on prior work.¹ Three recently published reports form the basis for my testimony on Agriculture's worldwide trade offices and its Trade Show Program.² Many of the more fundamental problems I will review stem from Agriculture's failure to date to complete a long-term agricultural trade strategy. Under the Food, Agriculture, Conservation, and Trade Act of 1990, Agriculture was required to do so by October 1991.

THE MARKET PROMOTION PROGRAM

We have recently completed the field work on our current review of the Market Promotion Program (MPP), which is managed by Agriculture's Foreign Agricultural Service (FAS). We examined program-supported activities of five MPP participants in Japan. Four of the five program participants were previously in the Japanese market as a result of their involvement in the Cooperator Program.³

Nevertheless, assessing the impact of promotional activities on export levels is difficult to demonstrate. Furthermore, criteria

¹Agricultural Trade: Improvements Needed in Management of Targeted Export Assistance Program (GAO/NSIAD-90-225, June 27, 1990) and Agricultural Trade: Review of Targeted Export Assistance Program (GAO/NSIAD-88-183, May 24, 1988).

²U.S. Department of Agriculture: Better Trade Show Management Can Increase Benefits to Exporters (GAO/NSIAD-92-122, Mar. 10, 1992); U.S. Department of Agriculture: Agricultural Trade Offices' Role in Promoting U.S. Exports Is Unclear (GAO/NSIAD-92-65, Jan. 16, 1992); and Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).

³Cooperators are nonprofit commodity groups representing producers, farmers, and farm-related interests or trade associations. Cooperators conduct market development activities, most of which are carried out in foreign countries. Their activities generally are not designed to make sales but to achieve long-term market access to foreign countries.

have not been established for deciding whether to continue or to phase out funding for particular activities. An irregularity in the use of program funds that went on for several years has been uncovered. Additionally, FAS has overlooked opportunities to clarify other issues concerning its Market Development Program.

Background

The Market Promotion Program (MPP) was created to encourage the development, maintenance, and expansion of exports of U.S. agricultural products. Established by the Food, Agriculture, Conservation, and Trade Act of 1990, the program is open to a wide variety of exporters but gives priority to participants adversely affected by unfair foreign trade practices. The act also mandated that Agriculture develop a long-term agricultural strategy by October 1991. To date, this strategy has not been completed. MPP became the successor to the Targeted Export Assistance Program (TEA), which was established in 1986. Since 1986, over \$1 billion has been authorized for TEA and MPP. Currently, the program has \$200 million in annual funding. MPP is operated through about 61 organizations that either run market promotion programs themselves or pass the funds along to companies to spend on their own market promotion efforts. About two-thirds of all program activities involve generic promotions, the remaining one-third involves "branded" (brand-name) promotions. MPP focuses primarily on high-value products such as fruits, nuts, and processed goods.

The Cooperator Program--another FAS program, in operation since the mid-1950s--has broad goals that are similar to those of MPP. Some Cooperator Program participants have transferred their activities to, and now only participate in, MPP; others continue to participate in both programs.

Market Development Activities Yield Mixed Results

4As indicated in section 1485.11 of the program regulations, an unfair foreign trade practice means any act, policy, or practice of a government that (1) violates, is inconsistent with, or otherwise denies benefits to the United States under any trade agreement to which the United States is a party; (2) is unjustifiable, unreasonable, or discriminatory and burdens or restricts U.S. commerce; or (3) is otherwise inconsistent with a favorable section 301 determination by the U.S. Trade Representative.

Market development strategies and their activities are directed toward a variety of goals such as overcoming trade barriers, entering a new market, or expanding imports in existing markets. Some program activities did not achieve their objectives. For example, efforts by the California Raisin Advisory Board to introduce raisins as a snack food were not successful in Japan, partially due to inadequate market research and management problems. The "dancing" raisins used by the advertisers were reported to be too frightening for Japanese children--a targeted audience--thereby defeating the purpose of the advertising campaign. Furthermore, the U.S. Confectionery Industry's generic advertising efforts for Valentine's Day did not succeed, as a result of inadequate market research. The industry was marketing inexpensive items in a market that preferred premium items.

Other program activities have achieved their objectives. For example, efforts by the U.S. Meat Export Federation to increase consumer awareness of U.S. beef in Japan supported U.S. trade negotiations to remove restrictions on beef imports. After import restrictions were modified, the Federation carried out activities that helped U.S. beef exporters enter the Japanese market or expand exports. However, U.S. meat exporters were not the only ones to benefit from the relaxation of quota restrictions.

Long-Term Plans Have Not Been Developed

Agriculture's planning process emphasizes what can be achieved for each activity in a year, while program participants see their efforts as part of a long-term market development strategy. For example, the Cotton Council International is currently conducting a multimedia advertising campaign to make U.S. cotton synonymous with quality. This project has been under way since 1989 and is expected to continue for many more years. However, Agriculture's 1-year approval period disrupts these long-term efforts to develop markets. Approvals are sometimes given late or well into the activity year, thereby breaking the continuity and momentum of promotional programs.

Under the 1992 MPP regulations, participants will be required to submit a strategic plan covering 3 or more forward years. However, since activity plans must still be approved annually, difficulties will result when delays occur in approving activity plans.

FAS Program Evaluations Have Problems

FAS has conducted few formal evaluations of participants' programs and is still developing a methodology for evaluating the effectiveness of the program as required by the Food, Agriculture, Conservation, and Trade Act of 1990. From fiscal years 1986 through

1991, 87 organizations participated in the program. However, FAS has conducted overall evaluations of only 10 participants, including just 7 of the 23 who have received cumulative funding of \$10 million or more from 1986 to 1991.

Furthermore, program regulations state that program participants must prepare activity evaluations for FAS. Based on our current work, we found that participants are submitting activity evaluations, but we noted several weaknesses. In some cases, the activity descriptions lack measurable goals and objectives, thus making evaluation difficult, if not impossible. Some evaluations provide descriptive rather than analytical information. On the other hand, three participants we interviewed told us that FAS does not provide them with feedback on the evaluations.

Market Promotion Program Lacks Funding Criteria

MPP regulations do not include criteria as to when funding for specific program activities should be phased out, as suggested in our 1990 report. Without these criteria, funding for specific activities could continue indefinitely. Government funding may be of particular importance in some situations, but not in others. For example, assistance may be needed to overcome particularly burdensome barriers. However, once these barriers are overcome and the market is developed, federal funding may no longer be justified. In such circumstances, we believe that government funding should be phased out, and exporters should assume the full cost of promoting their products.

Moreover, there has recently been considerable debate in the Congress and the press about providing program funds to private for-profit companies to promote their products overseas. Likewise, we have suggested that FAS better define which companies should be assisted based on their size or other criteria and that standards be devised to ensure that companies eventually take over the cost of their market development activities themselves.

Legislation Has Been Proposed

Recently Congressman Peter H. Kostmayer introduced legislation to revamp MPP. I would like to comment on some of the provisions of this legislation. It addresses, among other things, how the program's role can be better defined and indirectly which companies the program is to serve. It limits FAS reimbursement to a maximum of \$500,000 per year for each private company that participates in the program--for its total worldwide overseas promotions. The proposed legislation also includes a formula for phasing out government assistance for activities in specific foreign markets. Specifically, the legislation provides that government support for activities in a specific market be gradually phased out over a 5 year period.

We support the thrust of this legislation. By providing for the phase-out of government funding for specific activities, the legislation makes clear that these funds are not an entitlement. Furthermore, this legislation will give the taxpayer greater assurance that public funds supporting MPP are being used to help firms enter new markets. Lastly, by restricting the annual reimbursement of each recipient to a limited specified amount, MPP funds can be provided to a larger number of program participants, particularly export-ready smaller firms that arguably have a

greater need than many of the larger for-profit private participants currently receiving public funding under the program.

Fiscal Monitoring Has Weaknesses

In our 1990 report we recommended that internal controls needed strengthening and that program participants needed greater oversight. Fiscal oversight of MPP is difficult because, for the most part, FAS works through not-for-profit associations rather than through direct funding of activities. FAS allocates funds to the associations, who can both contract with private firms to run generic market promotions for the associations and to private companies who use the money to promote their own branded (brand-name) products in foreign markets. While FAS Compliance Review staff periodically audit the not-for-profit associations, they do not as a rule audit the not-for-profit associations' contractors or the branded participants. Hence, there are potential opportunities for abuse. For example, one of the American Soybean Association's contractors in the United Kingdom submitted altered invoices over several years. The contractor's expenditures accounted for more than \$15 million in Targeted Export Assistance funds and \$900,000 in Cooperator funds.

The altered invoice situation surfaced in October 1990 when a former employee of the contractor, Goddard, Niklas, Delaney, DeRoos, gave the American Soybean Association evidence that prices on supplier invoices supporting Goddard's billings to the association had been altered to reflect amounts in excess of actual costs. Goddard admitted to the alterations, whereupon the American Soybean Association immediately terminated its contract with Goddard and took legal action to obtain all accounting records and stop payment on all outstanding billings. In December 1990 the American Soybean Association notified FAS of the situation and the actions taken.

Although the American Soybean Association has been the subject of audits by the Department of Agriculture and outside auditors selected by its board of directors, Goddard was never audited by the American Soybean Association or the Department of Agriculture, despite the substantial sums Goddard received. Agriculture does not routinely audit firms employed by program participants because of insufficient staff.

Under a subsequent court-supervised agreement between the American Soybean Association and Goddard, FAS gained access to Goddard's records for a 4-week period beginning March 11, 1991. FAS' Compliance Review staff determined that the association received excess reimbursements amounting to over \$1,100,000 under the Targeted Export Assistance and Cooperator Programs. In January

1992 a British court ordered Goddard to pay the American Soybean Association \$1,019,890. FAS intends to demand payment from the American Soybean Association in the amount of the fraud as determined by the compliance review. The Department of Agriculture's Inspector General is currently investigating this case.

FAS Has Not Clarified Other Issues

As we also stated in our 1990 report, we believe FAS should clarify the following issues in order to use its MPP funds more effectively:

- the percent of total funding that should be allocated to generic and/or brand-name promotions;
- the emphasis to be placed on exports representing high-value products versus bulk commodities (i.e., cotton, corn, soybeans, and wheat);
- the division of funding between new market development and/or established markets;
- the participation levels of large, well-established private firms and/or small and new-to-market firms; and
- the amount of training in marketing skills that its staff need to have.

AGRICULTURAL TRADE OFFICES

As I previously noted, we recently completed a review of the U.S. Department of Agriculture's worldwide network of agricultural trade offices.⁵ Our review focused on (1) activities performed by these offices in carrying out their market development mission, (2) criteria used to select trade office sites, (3) Agriculture's efforts to evaluate the effectiveness of trade office activities, and (4) the adequacy of program management and operations. I would like to summarize the results of this review.

Background

As of October 1991 FAS operated a network of 13 agricultural trade offices worldwide at an annual operating cost of about \$4.7 million. Since FAS' inception in 1953, its mission has been to expand foreign markets for U.S. agricultural commodities through

⁵U.S. Department of Agriculture: Agricultural Trade Offices' Role in Promoting U.S. Exports Is Unclear(GAO/NSIAD-92-65, Jan. 16, 1992).

commodity reporting, trade policy work and representation, and market development. Until the establishment of agricultural trade offices in 1978, agricultural attaches were responsible for carrying out this mission.

Acknowledging the importance of agricultural exports to the overall U.S. balance of trade and the economy, the Congress enacted the Agricultural Trade Act of 1978, which authorized establishing at least 6 and no more than 25 agricultural trade offices to focus more attention on market development. Legislative history indicates that these offices were to act as catalysts for an aggressive export promotion effort to develop markets, provide services and facilities for foreign buyers and U.S. trade representatives, and consolidate export development activities carried out by private, nonprofit agricultural trade organizations participating in the Cooperator Program and, later, MPP.

Agricultural Trade Offices Focus on Market Development

Agricultural trade offices generally oversee Cooperator activities, facilitate U.S. participation in trade exhibits and other promotional functions, and provide trade services to foreign buyers and U.S. sellers. Many of these activities are also carried out by attache posts, but trade offices generally devote more of their total time to market development activities. However, at the time of our review, 6 of the 13 trade offices were Agriculture's sole representatives in a foreign country and were identified by Agriculture as "de facto" attache posts. Three of these six trade offices and the two trade offices in China spent less than half of their time on market development because of other responsibilities involving commodity reporting and trade policy.

Site Selection Criteria Are Not Consistently Applied

Agriculture established specific criteria and methodology for selecting the first six trade office sites in 1979 and 1980. However, there is no indication that these criteria and methodology were used in selecting sites since 1980 or in developing proposals for sites currently under consideration. In most cases, documentation of decisions on where to locate these offices is no longer available. As a result, Agriculture could not readily demonstrate that existing or proposed trade offices were in the best locations for maximizing market development opportunities for U.S. products. Agriculture officials said that factors such as a critical mass of market activity, the potential for market development, and the need to facilitate a U.S. trade presence were considered when selecting a site. In our view, these factors are so broad that Agriculture can justify placing an office almost anywhere in the world.

Two other factors have influenced trade office site selections--the ability to locate off embassy grounds and the ability to co-locate with Cooperators. Most trade offices are located off embassy grounds, and about half have Cooperators that are co-located with them. The agricultural trade officers and Cooperators we interviewed favored the physical separation of agricultural trade offices from the embassy and generally supported co-location. However, neither U.S. trade officials nor Cooperators considered co-location an essential element for market development.

Overall Trade Office Effectiveness Has Not Been Assessed

We found that the agricultural trade offices GAO visited were focusing on market development as prescribed in the Agricultural Trade Act of 1978. However, Agriculture has not attempted to evaluate its trade offices' overall effectiveness since 1981. Agriculture has only evaluated individual staff performance and projects carried out by trade offices (e.g., trade shows, trade leads, and consumer promotions). While this information enables Agriculture to comment on the success of individual events or services, it does not address the relative value of the various activities or the effectiveness of overall trade office operations. As a result little feedback can be given to agricultural trade offices on which activities are most effective in meeting long-range goals and objectives.

GAO Recommendations for Improving Trade Office Operations

In our recent report, we made several recommendations to the Secretary of Agriculture to improve agricultural trade office operations. We recommended that the Secretary direct FAS to 1) review the criteria and methodology used in selecting the first six trade office sites and develop written criteria and a methodology for evaluating current and proposed sites, 2) complete the required long-term agricultural trade strategy as soon as possible, 3) define the role and activities of agricultural trade offices in this strategy and in Agriculture's market development mission, 4) establish benchmarks to evaluate the effectiveness of agricultural trade offices in implementing Agriculture's market development programs, and 5) establish specialized market development courses and annual marketing conferences and reassess the length of overseas assignments. Agriculture is in the process of obtaining comments from its trade office staff on our report before taking any action on our recommendations.

THE TRADE SHOW PROGRAM

Our recent report on Agriculture's Trade Show Program assessed FAS' administration of the program.⁶ We examined 1) the Trade Show Program's role in promoting U.S. agricultural exports, 2) Agriculture's program management, 3) subsidies provided to trade show exhibitors, and 4) Agriculture's program evaluation efforts. I would like to discuss briefly our findings in the report.

Background

Recognizing that trade shows can help increase exports, many countries, including the United States, use these shows to promote exports of their consumer-oriented agricultural products. These are basically retail-ready products that require little or no additional processing for consumption, such as fruits, nuts, milk, and chocolate. During the 1980s, world exports of these products increased from \$92 billion to \$149 billion, or by about 62 percent. By 1989, world exports of consumer-oriented products represented about 53 percent of world agricultural trade.

FAS' High Value Products Services Division (HVPSD) administers Agriculture's Trade Show Program. In fiscal year 1991, Agriculture spent about \$1.9 million to participate in four international shows, to sponsor a U.S. solo show for U.S. products only, and to support four agent shows for overseas agents for U.S. companies. However, this funding represents only a small part of Agriculture's overall trade show effort, which involves outlays of about \$19 million for trade show participation. Most of these funds (\$14.25 million) come from the MPP budget. In comparison to the United States, trade shows play a much more significant role in the export promotion efforts of our major competitors--countries of the European Community.

Program Management Is Diffused

FAS' HVPSD has responsibilities for administering certain tasks for the Trade Show Program. However, Agriculture does not manage the Trade Show Program from its headquarters office. FAS' overseas staff manage most actual trade show tasks. These responsibilities include managing pavilion design, overseeing booth and pavilion construction, and suggesting the level and nature of Department participation.

⁶U.S. Department of Agriculture: Better Trade Show Management Can Increase Benefits to Exporters (GAO/NSIAD-92-122 Mar. 10, 1992).

By way of comparison, major European competitors manage their participation in trade shows in a more centralized manner. For example, the headquarters management of some competitor countries have standardized pavilions and booths that reduce the cost of designing trade show facilities and assure greater quality control.

The HVPSPD's Washington staff assigned to the Trade Show Program consist of only three full-time trade show coordinators. They consolidate exhibitor sample shipments, design recruitment brochures, recruit and assist U.S. exhibitors, and provide some preshow preparation assistance. With its current Washington staff, the Trade Show Program does not have sufficient people to comprehensively recruit and prepare U.S. exhibitors for trade show participation. These functions are considered essential to having a successful trade show.

Current Trade Show Subsidies Are High

Agriculture provides 55-60 percent of the costs of sponsoring a U.S. trade show pavilion. The Department recovers the balance by charging exhibitors; however, the charges generally do not take into consideration a company's size, export expertise, or frequency of participation in trade shows. Recent experience suggests that lowering the subsidy did not deter experienced exhibitors but did discourage exhibitors that were new to exporting.

In contrast, the Department of Commerce does not provide any subsidies for participants in its Trade Show Program. The European countries that we obtained information about vary subsidies to exhibitors but generally obtain their funds from industry assessments--not the government.

Program Evaluation Is Limited

FAS has recently expanded its evaluation process to assess program effectiveness and trends over time rather than only examining individual show effectiveness. FAS focuses its evaluation efforts substantially on whether or not exhibitors achieve their participation objectives. However, weaknesses in the questionnaire design and questionnaire collection procedures affect data quality and reliability. These weaknesses limit how data can and should be interpreted and also skew evaluation results.

FAS does not explore the reasons why companies say they will participate in future trade shows but frequently do not do so. For example, Agriculture does not know why 87 percent of exhibitors

said they would participate again in a particular trade show but only 38 percent actually did return. Most successful shows are able to attract about 80 percent of their former exhibitors.

Because trade shows are significant to U.S. exporters in showcasing consumer-oriented agricultural products, we made a number of recommendations to strengthen the program, including

- integrating the goals of the Trade Show Program into the required long-term agricultural trade strategy,
- enhancing the HVPSP's share of the available funding for trade shows and increasing its management responsibilities, and
- improving the evaluation of U.S. participation in trade shows in order to improve future trade show efforts.

AGRICULTURE'S PROGRAMS ARE NOT LINKED
TO ANY GOVERNMENTWIDE EXPORT PROMOTION

In evaluating Agriculture's export promotion activities, it is worthwhile to examine how they fit into governmentwide efforts to promote U.S. products in world markets. Ten federal government agencies currently offer programs to help businesses begin exporting or to expand their exports. In fiscal year 1991 these agencies spent about \$2.7 billion on export promotion programs. However, these export promotion programs are not funded on the basis of any governmentwide strategy or set of priorities. Consequently, taxpayers do not have reasonable assurances that the public's money is being effectively used to emphasize sectors and programs with the highest potential returns.

For example, while agricultural products only constitute about 10 percent of U.S. exports, the Agriculture Department spent about \$2 billion on export promotion in fiscal year 1991. In other words, Agriculture spends almost three-quarters of the government total outlays on export promotion.

Agriculture's MPP by itself received more funds in fiscal year 1991--\$200 million--than was spent by the Commerce Department on all its export promotion programs put together. By way of comparison, the Department of Commerce spent about \$91 million to support exports of nonagricultural products through its U.S. and Foreign Commercial Service. This money was spread among a large network of 131 posts in 67 countries and 47 domestic offices.

The Service's staff in Japan operated in fiscal year 1991 on a budget of \$4.3 million. In contrast, Agriculture budgeted almost \$64 million for MPP in Japan during the same year.

Improving Agriculture's export promotion programs, as well as all the government's export promotion programs, is important. However, the most significant progress cannot be achieved one agency or one program at a time. In our recent report to the House Committee on Government Operations reviewing the resources of all the federal government agencies involved in export promotion, we recommended that the Congress require that all export promotion programs be integrated into a governmentwide strategic plan and funded in a manner consistent with the priorities given them under the plan.⁷ Future funding for the programs discussed today should be consistent with the priorities set out in this strategic plan.

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Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions you might have.

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⁷See Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).